



2001 ANNUAL REPORT

Joint Enforcement Strike Force on the Underground Economy

A Report to the California Legislature

Employment Development Department

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Employment Development Department

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EXECUTIVE SUMMARY

In October 1993 an Executive Order was issued forming the Joint Enforcement Strike Force on the Underground Economy (Strike Force). The purpose of the Strike Force is to combat the underground economy by pooling resources and sharing data among the State agencies charged with enforcing licensing, labor, and tax laws. On January 1, 1995, Section 329 was added to the California Unemployment Insurance Code (CUIC), which placed the provisions of the Executive Order into law. Strike Force members are the Employment Development Department (EDD), which is the lead agency, Department of Consumer Affairs (DCA), Department of Industrial Relations (DIR), Office of Criminal Justice Planning, Franchise Tax Board (FTB), Board of Equalization (BOE), and Department of Justice (DOJ).

Since the formation of the Strike Force, three enforcement efforts have been implemented:

1. The Employment Enforcement Task Force (EETF)
2. The Construction Enforcement Project (CEP)
3. The Janitorial Enforcement Project (JEP)

As of December 31, 2001, the Strike Force had accomplished the following:

- The EETF became operational in February 1994 and has conducted 8,019 investigations. These investigations resulted in the issuance of 6,866 citations totaling \$41,038,930 for various violations of the Labor Code. These investigations also initiated 4,272 payroll tax audits, of which 3,650 have been completed, resulting in assessments totaling \$58,673,481 in unpaid employment taxes. In addition, 35,306 workers should have been reported as employees but were not.
- The CEP began as a pilot project in 1994 and was expanded statewide as of December 31, 1995. The CEP initiated 1,502 audits in the construction industry, and through December 31, 2001, 1,232 audits have been completed, resulting in assessments of \$68,804,422 in unpaid employment taxes. In addition, 23,245 workers should have been classified as employees but were not.
- The EDD began looking into the janitorial industry in the summer of 1998 as a result of information provided by the owner of a Southern California janitorial business. In 1998, 3 underground economy janitorial businesses were audited, and in 1999, 16 additional underground economy janitorial businesses were audited. In total, all 19 businesses were assessed \$3,853,054 in unpaid employment taxes plus penalty and interest charges. In addition, 598 unreported employees were discovered.

Assembly Bill (AB) 613 (Chapter 299, Statutes of 1999) required the Strike Force to include the janitorial and building maintenance industry as a targeted industry beginning in State Fiscal Year (SFY) 2000/01. To meet this requirement, EDD initiated the JEP in October 2000 and devoted the equivalent of three audit staff. The Strike Force used the SFY 1998/99 experience in Southern California as a model to develop an approach to identify noncompliance in the janitorial industry throughout California.

During 2001, meetings were conducted with the partnering agencies and impacted labor unions and associations to discuss the two types of noncompliance in the industry. One type is the unintentional noncompliance where janitorial businesses honestly consider their workers to be legitimate independent contractors. These workers are typically issued a Form 1099 each calendar year, thus leaving a discovery trail for audit staff. In these instances, it is rare that fraud or the intent to evade the provisions of the CUIC is found. When EDD encounters this type of situation and determines the workers were in fact common law employees, it is considered a legitimate employment status issue.

The second type of noncompliance is intentional nonreporting based on a scheme to avoid payroll taxes, labor laws, and workers' compensation insurance premiums. A typical scheme is the payment of wages in cash without documentation. These payments will rarely be found in any business records. While the janitorial industry covers the whole spectrum of business types (office buildings, retail and wholesale establishments, department stores, etc.), we have discovered this scheme most frequently in large grocery and department stores where the contract calls for cleaning and waxing the floors on a regular basis. Typically, the workers do not know whom they work for and usually report to and are paid by a crew leader, foreman, or a subcontractor. In most cases, the actual employer is one to two steps removed from the entity that is actually contracting with the store for cleaning services. This makes it more difficult for enforcement agencies to identify the true employer.

The Strike Force has achieved significant enforcement results. Joint efforts have proven to be very effective. Collective enforcement capability allows participating agencies to address multiple rather than single violations of law. The multiple enforcement efforts with associated citations, penalties, and assessments have had a significant effect on underground economy businesses. The intent is to drive these businesses into the legitimate economy or put them out of business. This reduces the pressure of unlawful competition on honest businesses.

The Strike Force continues to enjoy valuable communication links with business and labor organizations in industries prone to underground economy activity. These links were established as a result of our past partnerships and current outreach and education efforts with the business and labor organizations. Consequently there is a broader awareness of compliance issues by members of these industries, which has helped uncover underground economy schemes employed in these industries.

Our challenge is to continue to maximize the effective use of our resources to reach those who intentionally disregard the law, undercut their competitors, and deny workers the benefits to which they are entitled.

BACKGROUND

The Strike Force was established by Executive Order W-66-93 on October 26, 1993. The purposes of the Strike Force are to enhance the development and sharing of information necessary to combat the underground economy; to improve the coordination of enforcement activities; and to develop methods to pool, focus, and target the enforcement resources of all members in support of the enforcement activities of individual agencies.

Subsequent legislation, SB 1490 (Chapter 1117, Statutes of 1994), codified the Executive Order by enacting Section 329 of the CUIC and established a January 1, 2000, sunset date. The SB 319 (Chapter 306, Statutes of 1999) extended the sunset date to January 1, 2006. Member agencies include EDD, DIR, DCA, FTB, BOE, DOJ, and the Office of Criminal Justice. The EDD Director is the chairperson.

The Strike Force focuses on implementing joint enforcement projects among member agencies. The EETF, which became operational on February 7, 1994, initially focused on joint enforcement of payroll tax, labor, and licensing laws in the automotive repair, garment manufacturing, and construction industries. During the next three years, bars, restaurants, nightclubs, furniture manufacturers, adult entertainment establishments, bakeries, produce markets, car washes, pallet repair businesses, and cabinet manufacturers were added to the target group. These industries receive special attention because experience demonstrates a significant rate of noncompliance with employment tax and labor laws. In late 1999, the janitorial and building maintenance industry was added to the target list.

A system for identifying businesses that are suspected of operating in the underground economy was designed and implemented. There are four major sources of leads: hotline calls, other government agencies, industry contacts, and the Strike Force staff.

On July 1, 2000, the Strike Force received additional funding from the EDD UEO SFY 2000/01 Budget Change Proposal (BCP) to fill 12 Tax Auditor IV and 2 Tax Administrator I positions. The 12 audit staff and 2 administrators were hired, and training was completed in late October 2000. These new resources were used to target the following industries starting in SFY 2000/2001:

- Public works
- Landscape maintenance
- Security guards
- Janitorial and building maintenance
- Construction Industry

The original BCP goal and baseline provided that UEO would make 825 audit referrals (baseline of 567 + BCP projection 258 = 825) during SFY 2000/01. However, due to a delay in hiring staff into the program, this figure was revised to 696 audit referrals and completed audits and \$30.6 million in assessments. During SFY 2000/01, EDD surpassed the revised and original BCP goals by referring 841 cases to the audit program and completing 726 audits. The EDD was 12 percent shy of the assessment goal, assessing \$26.9 million in employment taxes, penalties and interest.

The CEP was implemented on July 1, 1994, as a nine-month pilot project in the Sacramento area to detect underground economy activity in the construction industry. Based on the success of the pilot project, the CEP was expanded statewide as of December 31, 1995.

The EDD began looking into the janitorial industry in the summer of 1998 as a result of information provided by the owner of a Southern California janitorial business. In 1998, 3 underground economy janitorial businesses were audited, and in 1999, 16 additional underground economy janitorial businesses were audited. In total, all 19 businesses were assessed \$3,853,054 in unpaid employment taxes plus penalty and interest charges. In addition, 598 unreported employees were discovered.

Strike Force staff also recognized the need to combine an ongoing educational program with enforcement activities. Staff have conducted outreach presentations to business and labor organizations throughout the State and to representatives of local government agencies. These presentations informed a large number of people about Strike Force activities and continue to be an excellent source for leads.

The goals of the Strike Force are to:

- Eliminate unfair business competition.
- Protect workers by ensuring that they receive all benefits to which they are entitled by law relating to wages and hours, health and safety, and income replacement.
- Protect the consumer by ensuring that all businesses are properly licensed and that they adhere to the State's consumer protection regulations.
- Reduce the burden on law-abiding citizens by ensuring that all businesses and individuals comply with the State's licensing, regulatory, and tax laws.
- Increase voluntary compliance with the State's tax laws to maximize the State's general and special fund revenue.

A summary of information required by Section 329 of the CUIA is included in this report.

JOINT ENFORCEMENT PROJECTS

The Strike Force is empowered to form joint enforcement teams to utilize the collective investigative and enforcement capabilities of the participating members. Three Strike Force joint enforcement projects, EETF, CEP and JEP, are discussed below. In addition, the Targeted Industries Partnership Program (TIPP), an effort separate from the Strike Force is also discussed.

Employment Enforcement Task Force (EETF)

The EETF is the first joint enforcement project created by the Strike Force. Participating agencies include EDD and DIR with strong support from the Contractors' State License Board (CSLB) and the Bureau of Automotive Repair (BAR) within DCA. The goal of EETF is to identify and bring into compliance those individuals and businesses in the underground economy and in violation of payroll tax, labor, and licensing laws. In 1994, EETF focused on the construction, automotive repair, and garment manufacturing industries. During the next three years, bars, restaurants, nightclubs, furniture manufacturers, adult entertainment establishments, bakeries, produce markets, car washes, pallet repair businesses, and cabinet manufacturers were added to the target group. In late 1999, the janitorial and building maintenance industry was added to the target list. Although EETF focuses on industries known to have a high degree of noncompliance, investigations of businesses not included in the target group are also investigated when underground economy activity is suspected.

The EETF agents from each agency jointly conduct on-site investigations of businesses by interviewing owners, managers, and workers to determine if businesses are in compliance with payroll tax, labor, and licensing laws. To minimize the disruption of compliant businesses, EETF conducts investigations only if there is reasonable belief of violations of the CUI, Labor Code, and/or the Business and Professions Code.

A system for identifying businesses that are suspected of operating in the underground economy has been designed and implemented. There are four major sources of leads: hotline numbers, other government agencies, industry sources, and EETF staff. Separate, statewide hotline numbers were published and advertised for the construction industry and the automotive repair industry. One statewide hotline number was established for all other industries.

The EETF has established close ties with CSLB, BAR, and the Bureau of Home Furnishings and Thermal Insulation, all within DCA. We have developed cooperative liaisons with the Public Utilities Commission and BOE and have also networked with many local law enforcement agencies in their various programs involving vice, automotive theft, and problem-oriented policing.

One of our most effective partnerships continues to be the joint enforcement effort with the Department of Alcoholic Beverage Control (ABC), BOE, and local law enforcement. Our partnership began in early 1995, with ABC and local law enforcement agencies selected to receive State grants from the Grant Assistance for Local Law Enforcement (GALE) Program. The focus of GALE is to provide funds to help in reducing the amount of crime committed in neighborhoods and business districts where alcohol is a factor. The GALE Program targets licensees who allow criminal activities to take place in or around their premises. The grants are designed to enhance the State and local partnership in dealing with alcohol-related crimes and to encourage the development of new, more efficient methods for enforcing the State's liquor

laws that can be adopted by other law enforcement agencies. The early success of our joint enforcement efforts with ABC, BOE, and GALE grantees resulted in other non-GALE local law enforcement agencies asking to be involved with EETF and ABC in joint operations. These operations not only addressed alcohol-related crimes, but other policing problems such as vice and money laundering.

In 2001, EETF conducted 626 investigations, of which 69 were conducted without Division of Labor Standards Enforcement's (DLSE) participation. These investigations resulted in \$3,371,680 in Labor Code citations and 487 audit referrals to EDD. During 2001, 370 audits were completed with tax assessments totaling \$7,500,116 (see Attachment A).

The year 2001 was a good year for EETF. The EETF was able to increase enforcement activity throughout the State, which has resulted in significant increases in our major reportable activities during the year (see Attachment A). In comparison to calendar 2000, total inspections increased by 58.9 percent, DLSE's Labor Code citations and citation amounts increased by 72.8 percent and 60.3 percent while EDD's audit referrals and assessments increased by 89.5 percent and 16.1 percent.

Construction Enforcement Project (CEP)

The CEP was established because the on-site investigation technique used by EETF for identifying tax and employment fraud, while effective in most industries, was not as effective in the construction industry. Unlike other industries, which have permanent business locations, construction businesses frequently change job sites. By the time information is developed that a contractor is probably operating in the underground economy, work at the job site has often been completed, and an on-site inspection would not discover any labor law violations.

Both EETF and CEP pilot experience showed there are two major types of contractors operating in the underground economy. The first type is a licensed or unlicensed specialty contractor with a relatively small operation. This contractor typically has one or two full-time employees plus additional seasonal workers. This employer is usually not registered with EDD and does not provide workers' compensation insurance coverage. The workers are usually paid in cash without deductions, and no employment taxes are paid. The amount of unpaid taxes attributable to one of these employers is relatively small, but the amount of unpaid taxes attributable to these employers as a group represents a significant amount of the underground economy in the construction industry.

The second type of contractor is typically registered with EDD and provides workers' compensation insurance coverage, but only reports and pays employment taxes on a portion of the work force. These contractors attempt to appear legitimate and often use sophisticated schemes to hide the unreported payroll in the records. Experience shows these contractors are most commonly engaged in single-family, residential construction. Individually, the amount of unpaid employment taxes is often high, and collectively, this group constitutes the largest segment of underground activity in the construction industry.

The CEP began as a nine-month pilot project in the Sacramento area on July 1, 1994. The purpose of the pilot was to determine if new investigation and audit techniques would successfully detect underground economy contractors. During the test, a variety of innovative and nontraditional techniques were used to identify contractors avoiding employment taxes. If a CEP investigator developed evidence of underground economy activities, a payroll tax audit referral was made to the EDD Audit Program for a special underground economy audit.

The CEP pilot resulted in the completion of 79 payroll tax audits with assessments for unpaid employment taxes totaling \$1,599,941. Since the average amount of these assessments was approximately four times greater than audit assessments using traditional techniques, the pilot was considered successful, and CEP was expanded statewide as of December 31, 1995.

Experience during and after the pilot indicated CEP investigators need to become familiar with and learn as much as possible about how business is conducted in the construction industry. As a result, CEP auditors work closely with legitimate contractors, suppliers, and labor organizations to become experts in industry practices and typical schemes.

The CEP auditors continuously update their knowledge and understanding of common business practices, terminology, typical ratios of material purchases to labor costs, and any other technical information unique to the construction industry. This expertise will also be used to prepare an industry profile to assist the EDD audit program.

The CEP goal is to develop techniques that will maximize the detection of construction industry employers operating in the underground economy. In 2001, 235 CEP audits were completed resulting in assessments for \$11,912,662 in unpaid employment taxes for an average of \$50,692 per audit (see Attachment B). Since the inception of CEP on July 1, 1994, 1,232 CEP audits were completed, resulting in assessments totaling \$68,811,422 for an average of \$55,853 per audit.

Janitorial Enforcement Project (JEP)

The EDD began looking into the janitorial industry in the summer of 1998 as a result of information provided by the owner of a Southern California janitorial business. In 1998, 3 underground economy janitorial businesses were audited, and in 1999, 16 additional underground economy janitorial businesses were audited. In total, all 19 businesses were assessed \$3,853,054 in unpaid employment taxes plus penalty and interest charges. In addition, 598 unreported employees were discovered.

The results of the UEO work in 1998 and 1999 proved that significant noncompliance with the tax laws existed in the janitorial industry in Southern California. Therefore, a second auditor was assigned to assist. The UEO has identified all the major janitorial companies in Southern California, identified the typical schemes used to avoid employment taxes, and developed working relationships with the Pacific Association of Building Service Contractors, the Maintenance Cooperation Trust Fund, and the Service Employees International Union. These organizations are all interested in cleaning up the janitorial industry and have been very supportive.

Assembly Bill (AB) 613 (Chapter 299, Statutes of 1999) required the Strike Force to include the janitorial and building maintenance industry as a targeted industry beginning in SFY 2000/01. To meet this requirement, EDD initiated JEP in October 2000 and devoted the equivalent of three audit staff. The Strike Force used SFY 1998/99 experience in Southern California as a model to develop an approach to determine the level of noncompliance in the janitorial industry throughout California.

During 2001, meetings were conducted with the partnering agencies and impacted labor unions and associations to discuss the two types of noncompliance in the industry. One type is unintentional noncompliance where janitorial businesses honestly consider their workers to be

legitimate independent contractors. These workers are typically issued a Form 1099 each calendar year, thus leaving a discovery trail for audit staff. In these instances, it is rare that fraud or the intent to evade the provisions of the CUIA is found. When EDD encounters this type of situation and determines the workers were in fact common law employees, it is considered a legitimate status issue.

The second type of noncompliance is intentional nonreporting based on a scheme to avoid payroll taxes, labor laws, and workers' compensation insurance premiums. A typical scheme is the payment of wages in cash without documentation. These payments will rarely be found in any business records. While the janitorial industry covers the whole spectrum of business types (office buildings, retail and wholesale establishments, department stores, etc.) we have discovered this scheme most frequently in large grocery and department stores where the contract calls for cleaning and waxing the floors on a regular basis. Typically, the workers do not know whom they work for and usually report to and are paid by a crew leader, foreman, or a subcontractor. In most cases, the actual employer is one or two steps removed from the entity actually contracting with the store for cleaning services. This makes it more difficult for enforcement agencies to identify the true employer.

In 2001, 74 JEP audits were completed resulting in assessments for \$4,082,018 in unpaid employment taxes for an average of \$55,162 per audit (see Attachment C).

Targeted Industries Partnership Program (TIPP)

Strike Force staff from EDD were added to TIPP in 1996. The TIPP was established in 1992 as a multi-agency enforcement and educational program targeting the garment manufacturing and agricultural industries. These are industries that have a history of labor law and payroll tax violations. The original TIPP partners include the United States Department of Labor, Wage and Hour Division; and Department of Industrial Relations, Division of Labor Standards Enforcement, and Division of Occupational Safety and Health. The EDD's participation in TIPP has been limited primarily to the garment manufacturing industry. In 2001, EDD participated in 150 TIPP investigations, of which 48 were conducted without DLSE's participation. These investigations initiated 130 payroll tax audits referrals. The EDD completed 134 audits resulting in assessments totaling \$5,093,859 in unpaid employment taxes for an average of \$38,014 per audit.

SUMMARY OF INFORMATION REQUIRED BY SECTION 329 OF THE CUIC

This section includes information regarding blatant violations, publicity, hotlines, information sharing, and cooperation as mandated by Section 329 of the CUIC.

Blatant Violations

The Strike Force concentrates on implementing joint enforcement projects, which focus on administrative, rather than criminal resolution. However, the Strike Force identified 30 cases that were referred to EDD's Investigation Division for potential criminal investigation. The EETF uncovered the following number of blatant violations in 2001:

- The EETF issued Labor Code citations to 98 businesses for a total of \$1,564,100 for paying wages in cash without making the required payroll deductions.
- The EETF issued Labor Code citations to 407 businesses for a total of \$1,774,000 for failure to provide 1,774 workers with workers' compensation insurance coverage.

The following are examples of blatant violations detected by the Strike Force:

- At the request of the San Jose police department, EETF participated in a multi-agency operation of a medium-sized coffee bar. The coffee bar has been in business since 1998, but was not registered with EDD until 1999. The entity serves coffee and nonalcoholic drinks and provides a large screen TV, video games, and TV monitors for California Lottery Games. At the time of the inspection, DLSE issued a \$4,000 citation to the employer for failure to have a current workers' compensation policy. Subsequent to the inspection, the employer was issued two additional citations for \$7,000 for failure to give employees deduction statements and \$400 for failure to pay minimum wage. The EDD audit revealed unreported wages of \$442,336 paid to waitresses, cashiers, disc jockeys, and miscellaneous workers. The employer was assessed \$38,783 for unpaid employment taxes, fraud penalty, and interest charges.
- A Fresno area restaurant was inspected by EETF. The employer stated she had recently taken over the restaurant; however, a subsequent benefit hearing established the employer was operating two years before her statements to EETF. The employer advised EETF that she has no records and pays her employees in cash. At the time of the inspection, DLSE issued a \$1,000 citation to the employer for failure to have a valid workers' compensation policy. A subsequent EDD audit revealed unreported wages of \$916,500 paid to cooks, cleaners, bartenders, and waitresses. The employer was assessed \$306,900 for unpaid employment taxes, fraud penalty, and interest charges.
- An investigation of a Los Angeles based garment contractor was initiated based on information received from the Los Angeles County Department of Health Services, Garment Inspection Program. A routine inspection by the Health Inspector in February 2001 revealed that this employer was operating on that date with 40 employees. The EDD records indicated that this employer went out of business in June 1999. When TIPP conducted the inspection in March 2001, there were 40 employees and 10 time cards. The employer admitted to paying cash to most of the workers. Some of the employees worked

60 hours per week. The employer was assessed \$263,237 for unpaid employment taxes, fraud penalties, and interest charges.

- A homeowner provided information to EDD regarding a contractor they hired to perform remodeling work. The homeowner discovered the contractor had hired several workers who were being paid cash “under the table.” The homeowner insisted the contractor report the workers to EDD. As result of the dispute, the contractor attempted to bill the homeowner for the back payroll taxes. Based on the homeowner’s information, EDD conducted a payroll audit, which showed the contractor was billing homeowners for payroll taxes and costs, but not reporting them to EDD. The contractor had also changed the accounting system to label payments to acknowledged employees from “payroll” to “draws.” As result of the audit findings, 15 unreported workers were discovered, and an assessment was issued for \$108,194 for unpaid employment taxes, penalties including intent to evade, and interest charges.
- As part of the monthly garment sweep, EDD, DLSE, and the Division of Occupational Safety and Health inspected a Los Angeles garment contractor based on an EDD lead. The EDD had previously observed 17 employees and 11 time cards. Three of the employees that have worked for this employer for two to three years were not appearing in EDD’s databases. During the inspection, the employees stated that the employer clocked them in and out. A review of the pay stubs indicated that the employer was withholding State Personal Income Tax. The employer was assessed \$69,675 for unpaid employment taxes, fraud penalties, and interest charges.
- An investigation on a janitorial company was performed based on indications of misclassified workers. During the audit, the employer stated the janitors were independent contractors because they maintained a separate business license and signed contractor agreements. Several of the workers interviewed stated they were told to get a business license before they could work. The contracts were also examined, and based on all the facts, it was determined that over 100 workers should have been reported as employees. The employer was assessed \$100,438 for unpaid employment taxes, penalties, and interest charges.
- A general construction contractor issued a Form 1099 to a subcontractor in the amount of \$272,265 in 1997. The subcontractor who received the Form 1099 did not report any payroll in 1997 to EDD. As result of this discrepancy, an investigation was initiated. During the investigation, it was discovered that the State Compensation Insurance Fund (SCIF) had performed a payroll audit on the same subcontractor, which revealed over \$86,860 in wages were paid to workers that were not reported to EDD. The employer had previously reported to EDD in 1991-92; however, the employer started filing no payroll returns in subsequent years while utilizing the same employees. During the audit, the employer admitted to inaccurate record keeping practices. Although the employer stated no records were kept for workers receiving cash, the auditor confronted the employer with the records submitted by the employer to SCIF. At no time during the EDD audit did the employer submit these records. The EDD auditor was able to prove the employer’s attempts to conceal payments to workers in previous periods. Thirty employees were discovered, and the employer was assessed \$113,393 for unpaid employment taxes, penalties including intent to evade, and interest charges.

- A Fresno auto body shop was inspected by EETF. During the inspection, it was determined that at least four workers were paid in cash. The DLSE issued the employer two citations for \$4,000 for failure to have a valid workers' compensation policy and \$4,250 for failure to issue deduction statements. A subsequent EDD audit substantiated cash pay wages by tracing and verifying the workers by the employees' names on the uniform invoices, and the workers' signatures on the car part invoices. The audit revealed unreported wages of \$182,000 paid to car washers, cleaners, painters, and auto body workers. The employer was assessed \$46,848 for unpaid employment taxes, fraud penalty, and interest charges.
- An audit was conducted based on information provided by a local labor organization that a janitorial business erroneously treated its workers as independent contractors. The local labor organization had interviewed several workers who stated they believed that they were employees, not independent contractors. The audit revealed that some acknowledged employees were paid partly by "commission," and that this portion was not reported to EDD. In addition, 181 janitors were reclassified as employees instead of independent contractors. An assessment was issued for \$304,145 for unpaid employment taxes, penalties, and interest charges.
- A security company was investigated as result of Form 1099s erroneously issued to misclassified workers. The employing unit utilized services of individuals who performed security guard services on a regular basis. The audit found that the employer only reported workers who performed clerical functions. Dispatchers, corporate officers, security guards, and bodyguards were erroneously treated as subcontractors. The audit also found that some workers provided services in multiple states, some workers did not live in and performed no services in California, and other workers lived in and only provided services in California. There were 84 unreported workers identified as a result of the audit, and the employer was assessed \$66,370 for unpaid employment taxes and interest charges.
- A former employee provided information to EDD listing a garage door installation business as paying its workers cash without deductions taken from their pay. The ex-employee also stated the workers did not receive accurate Forms 1099 or W-2 at the end of the year. The ex-employee provided several other workers' names who performed services for the employer from 1998 through 2000. During the audit, several workers who were acknowledged employees had signed for material receipts on behalf of the employer. The dates of the signed material receipts did not match the periods in which the employer reported employees to EDD. The employer admitted to the differences but stated the differences occurred because the employer was behind on recordkeeping for "short" periods of time. Although the employer claimed these practices occurred for "short" periods of time, the auditor was able to prove the employer deliberately concealed payments, which were issued to workers as far back as 1996. The employer was ultimately assessed \$84,418 for unreported taxes, penalties, and interest charges.
- A lead was provided by the DLSE when an employee, after being injured on the job, filed a complaint against a landscaping business for failure to maintain a workers' compensation policy. The individual also listed the landscaping employer as paying other workers by cash without tax deductions taken from their pay. The EDD investigator interviewed the informant and discovered up to 19 other workers. At the time of the investigation, the employer was registered with EDD but was only reporting three employees. During the audit, the auditor was able to prove the employer's intent to conceal payroll taxes for the

duration of eight years. The final audit findings resulted in an assessment of \$329,055 for employment taxes, penalties including intent to evade, and interest charges.

- A Redding area auto detailing shop was inspected by EETF. During the inspection, the agent observed four workers. One of the workers worked for the business for 15 years. The DLSE issued a \$4,000 citation to the employer for failure to have a valid workers' compensation policy. During the subsequent EDD audit, it was discovered that the employer falsified the registration form by putting the business in the name of his ex-wife. The business did not issue either a Form 1099 or W-2 to the workers. The unreported wages of \$163,540 were paid to the auto detailers. The employer was assessed \$33,106 for unpaid employment taxes, fraud penalty, and interest charges.
- The TIPP conducted an inspection of a Los Angeles garment contractor based on a DLSE lead. This employer has been in business since 1992. The employer had been reporting an average of 6 employees per quarter, but during the inspection there were 40 employees observed on-site. Some employees admitted that they were paid in cash, and others said they were paid in a personal check and required to cash the check downstairs at a check cashing facility. During the EDD audit, the employer did not make records available to the auditor for the years prior to 1998. The employer was assessed \$866,821 for unpaid employment taxes, fraud penalties, and interest charges.
- An investigation was initiated after an auditor observed four large dump trucks in front of a home in Foster City. The auditor noted the contractor's license number on the side of one of the dump trucks and observed at least six workers performing concrete work at this job site. The auditor discovered that the contractor was not registered with EDD. As a result an audit was conducted. The auditor discovered 15 unreported workers for the years 1996 through 2001. The employer did not withhold payroll taxes from the workers' wages. As a result of the audit, the employer was registered with EDD and assessed a \$95,949 liability for unpaid employment taxes, penalties, and interest changes.
- At the request of the San Jose police department, EETF participated in a multi-agency operation and investigation of a medium sized café. The café sells meals, beer, and wine to the public. There were two different owners of this business, but neither of the owners had ever been registered with EDD. The business has been in operation since the first quarter of 1999. At the time of the inspection, DLSE issued a \$475,250 citation to the employer for failure to issue deduction statements. The subsequent EDD audit revealed unreported wages of \$184,303 for wages paid to waitresses and the manager. The wages were not reflected in the books and records, but allocated to each worker by the number of drinks sold to the customers by that worker. The employer was assessed \$26,331 for unpaid employment taxes, fraud penalty, and interest charges.
- A bar and restaurant in the Stockton area was inspected by EETF. The entity has been in business since the first quarter of 2000. The entity also uses a payroll service for accuracy of the payroll. The entity chose not to report any workers or their wages to EDD. At the time of the inspection, DLSE issued a \$17,000 a citation to the employer for failure to have a valid workers' compensation policy. The subsequent EDD audit revealed \$154,260 in unreported wages paid to bartenders, waitresses, hostesses, kitchen staff, and managers. The employer was assessed \$31,555 for unpaid employment taxes, fraud penalty, and interest charges.

- An investigation was initiated on a janitorial business based upon a phone call from an anonymous informant. The informant told EDD that a large janitorial company was underreporting wages paid to hundreds of janitorial workers. The audit revealed the employer was a large firm that maintained workers who performed such services as construction cleaning, window cleaning, building maintenance, carpet cleaning, and floor waxing services. It was also discovered that several workers were issued both a W-2 and Form 1099 from the employer. However, at no time could the employer show how the workers' services changed to validate the reason for issuing Forms 1099. As a result of the audit findings, a total of 400 employees were reclassified, and a \$512,520 tax liability was issued to the employer for unpaid employment taxes, penalties, and interest charges.
- A Concord auto detailer was inspected by EETF. The entity has been in business since 1999 but had never registered with EDD. During 2000, the employer began taking payroll deductions out of the workers' checks, but since he wasn't registered with EDD, he simply kept the deductions. At the time of the inspection, DLSE issued a \$4,000 citation to the employer for failure to have a valid workers' compensation policy. The subsequent EDD audit revealed \$158,127 in unreported wages paid to car cleaners. The employer was assessed \$21,364 for unpaid employment taxes, fraud penalty, and interest charges.
- An investigation was initiated on a roofing contractor because it was discovered that the business obtained 20 building permits in 1997, but did not register with EDD until January 1998. Through an inspection of records and previous business advertisements, the auditor determined that the business had employees in January 1996. The auditor also found that the amount of employees reported to EDD in 1998 did not support the volume of gross income and the number of completed roofing jobs. The employer did not provide information pertaining to unreported workers, so EDD issued a \$134,594 estimated assessment for unpaid employment taxes, penalties, and interest charges.
- The EETF conducted an inspection of a law firm, which also provides process serving and courier services. This lead was referred by DLSE. A search of EDD's databases revealed that the employer was registered with EDD in 1983 and was out of business on December 31, 1999. The inspection revealed that there were two businesses: a law firm and process servers; and a corporate courier service. The employer operated the two businesses with two separate corporations and had offices located throughout Southern California, with the main office in Los Angeles. All the office workers were acknowledged employees. During the inspection, it was revealed that all the drivers were treated as independent contractors and were issued a Form 1099. The investigation revealed that the employer reported as many as 119 workers per quarter in 1999 and only 22 workers in the most recent quarter. During the inspection, there were 35 workers observed in the main office alone. A subsequent EDD audit revealed that there were 179 workers. The employer was assessed \$551,133 for unpaid employment taxes, fraud penalties, and interest charges.
- The TIPP conducted an inspection of a Paramount garment contractor based on an EDD developed lead. The EDD went to the location and observed three workers. One of the partners stated that there was a second location in Vernon with 15 workers but no employees. The partner said that all the workers are partners in the company. A review of the EDD and DLSE databases indicated only two partners operated the business. The employer had previously notified EDD that he did not have any employees and did not foresee any employees in the future. During the inspection, TIPP observed 26 workers at the Vernon location. The investigators spoke with the manager who stated that there are

two owners/partners, and everyone else is an employee. The EDD auditor reviewed a couple of the employees' check stubs indicating withholding of taxes from their paychecks. The manager said that he and the receptionist were paid as independent contractors and all other employees had deductions taken from their pay. The manager called the partners but neither of them would speak to the auditors. During the EDD audit, the employer failed to respond to the auditor's requests for records. The employer was assessed \$45,874 for unpaid employment taxes, fraud penalties, and interest charges.

- The EETF conducted a self-initiated inspection of a restaurant chain. There were six known locations. Some of the restaurants were open 24 hours per day, and the employer reported only 18 workers per quarter. There were 4 locations inspected, and 16 workers were interviewed. The owner admitted that he paid most of the workers in cash. The DLSE issued a \$16,000 citation to the employer for failure to have a valid workers' compensation insurance policy. A subsequent EDD audit revealed that there were 93 workers. The employer was assessed \$232,044 for unpaid employment taxes, penalties, and interest charges.
- The EETF conducted a self-initiated inspection of a large commercial bakery. There were nine locations throughout Southern California, and the employer reported only 25 to 34 workers per quarter. During the inspection of the headquarters location, it was revealed that there were 30 workers at that location alone. Since the headquarters location also consisted of a baking facility, it maintained the largest number of workers. The remaining eight locations consisted of three full-time workers and two part-time workers at each location. A subsequent EDD audit revealed that there were a total of 54 workers. The employer was assessed \$180,198 for unpaid employment taxes, penalties, and interest charges.
- An auditor noticed that an employer's contractor's license showed 11 business partners. The auditor discovered this scheme in the past where a contractor lists his employees on his contractor's license as partners and therefore does not withhold payroll taxes for their earnings. As a result of this investigation, an audit was conducted. The auditor determined that even though the employer had a partnership contractor's license, the employer operated the business operations himself. The alleged partners were determined to be employees, which resulted in an assessment of \$131,084 for unpaid employment taxes, penalties, and interest charges.
- The EETF and CSLB conducted a joint inspection of a contractor. At the time of the inspection, there were two workers observed painting a single-family residence. The employer was registered with EDD but failed to file tax returns, and the account was subsequently closed. The DLSE issued a \$2,000 citation to the employer for failure to have a valid workers' compensation insurance policy. An EDD audit revealed that there were 14 workers. The employer was assessed \$177,313 for unpaid employment taxes, fraud penalties, and interest charges.
- The EETF conducted a self-initiated inspection of two restaurants, owned by the same person. The employer was registered with EDD in 1999 but never filed a tax return. In addition, a review of the BOE's database showed the restaurant opened in March 1978. Both locations were inspected, and six workers were interviewed. The DLSE issued a \$6,000 citation to the employer for failure to have a valid workers' compensation insurance policy. A subsequent EDD audit revealed that there were six workers. The employer was assessed \$151,758 for unpaid employment taxes, penalties, and interest charges.

- An investigation was initiated based on a competitor's complaint that a janitorial business was erroneously treating its workers as independent contractors. The competitor protested that he has lost bids on jobs because he treats his workers as employees. It was discovered through interviews with current workers that they were treated as employees prior to a new owner purchasing the business. In January 1998, the new owner converted the workers to independent contractors, although their duties and working conditions remained the same. Based on interviews of the workers, EDD issued a \$98,062 estimated assessment for unpaid employment taxes, penalties, and interest charges.
- The EETF conducted a self-initiated inspection of a landscape contractor who performed services at two job sites. At the time of the inspection, there were four workers observed at the two job sites. The employer later revealed that he had five job sites. The DLSE issued two citations to the employer in the amount of \$3,000, for failure to have a valid workers' compensation insurance policy, and \$1,900 for contracting without a valid contractor's license. An EDD audit revealed that there were a total of 31 workers. The employer was assessed \$135,578 for unpaid employment taxes, fraud penalties, and interest charges.
- The EDD developed a lead based on information received from the Los Angeles County Department of Health Services, Garment Inspection Program. A routine inspection by the Health Inspector on March 7, 2001, revealed that this employer was operating on that date with 24 employees. The employer had inactivated his account with EDD as of September of 1998 stating that he was out of business. During the onsite inspection conducted in May 2001, 19 employees were observed. The employer did his own payroll and kept his records at home. The employees said that they were paid by personal checks or cash and did not receive minimum wage. The subsequent EDD audit found that this employer had previously advised EDD that he was out of business. The employer and his bookkeeper were unresponsive to the auditor's attempts to contact them. The employer was assessed \$297,321 for unpaid employment taxes, fraud penalties, and interest charges.
- The EETF conducted a self-initiated inspection of a restaurant, with a full service bar. The employer, a corporation, was registered with EDD in 1997 but had never filed a tax return. During the inspection, 7 workers were interviewed. The DLSE issued a citation to the employer in the amount of \$8,000 for failure to have a valid workers' compensation insurance policy. A subsequent EDD audit revealed that there were a total of 12 workers. The employer was assessed \$87,535 for unpaid employment taxes, fraud penalties, and interest charges.
- An investigation was initiated on a business that provided janitorial and construction clean-up services. The business had many customer accounts and also a web site that advertised its services. The business was not registered with EDD but maintained several workers that it treated as independent contractors over a period of nine years. During the investigation, a previous worker filed a claim for UI benefits. The claimant was determined to be an employee. An audit of the business disclosed that the business treated approximately 80 workers that performed janitorial, office work, and managerial services, as independent contractors. All of the 80 workers were determined to be unreported employees. The employer was assessed \$178,981 for unpaid employment taxes, penalties, and interest charges.

- A security guard company was investigated by EDD as a result of information received from a former employee. The investigation revealed that the employer had two account numbers with EDD. One account number had been inactive since December 31, 1997. The other account number was active; however the employer never filed any returns. A former employee stated the employer withheld payroll taxes and issued the worker a W-2, but the worker was never reported to EDD. The information gathered from the worker indicated the employer withheld payroll taxes from employees' wages, but failed to report the wages or remit payroll taxes to EDD. As a result of the discrepancies discovered, an audit was performed. The auditor's findings held workers to be acknowledged common law employees, and unreported wages were estimated to be \$1,307,376 per year. The employer was assessed \$939,181 for unpaid employment taxes, penalties, and interest charges.
- The EETF conducted a joint inspection of a fund raising promoter with the Los Angeles Police Commission (LAPC). The LAPC initiated the investigation since the promoter did not have a permit to operate as a charitable fundraiser. During the inspection six workers were observed, and four workers were interviewed. All the workers provided services as sales representatives or telemarketers and were paid in cash. An EDD audit revealed that there were a total of 20 workers. The employer was assessed \$54,625 for unpaid employment taxes, penalties, and interest charges.

Publicity

Internet Site

In the spring of 2001, EDD designed and implemented an Internet web page for underground economy activities. The purpose of the web page is to publicize the activities of EDD's UEO Program as well as JESF. The web page, www.edd.ca.gov/txueoind.htm, provides easy public access to the UEO hotline telephone number and email address for reporting suspected employment tax fraud. Information within the web page provides a description of the underground economy and an explanation of what the costs are to the taxpaying public to provide the user with an understanding of the importance of combating underground economy activity. In addition to other UEO publications, *The Joint Enforcement Strike Force on the Underground Economy, 2000 Annual Report to the Legislature*, can be accessed through this page and provides the reader with detailed information on this program's effectiveness. Since March 2001, the UEO web page has been accessed 12,465 times. Of these, the 2000 Annual Report has been accessed 632 times.

Presentations

The Strike Force actively pursues opportunities to make presentations to employer groups, trade associations, labor organizations, other government agencies, and any other organization that may have an interest in the efforts to combat the underground economy. The purpose of these presentations is to educate the public about the mission of the Strike Force, publicize its accomplishments, heighten awareness of the types of services available from the Strike Force, and to solicit cooperation in Strike Force efforts. These presentations emphasize the need to eliminate unfair competition, the need to ensure that employees are provided the benefits to which they are legally entitled, the adverse impact the underground economy has on government revenue, and the value of partnering to effectively utilize limited resources.

In addition to making these types of presentations, in 2001, Strike Force staff focused on networking with officials from business associations, labor organizations, local law enforcement agencies, and other governmental agencies for purposes of describing our program and soliciting investigative leads. In 2001, network meetings were held with the following organizations:

State Departments

Board of Equalization

Department of Alcoholic Beverage Control

Department of Conservation

Department of Consumer Affairs

- Bureau of Automotive Repair
- Bureau of Barbering and Cosmetology
- Bureau of Security and Investigative Services
- Contractor State Licenses Board
- Division of Investigations

Department of Health Services

Department of Industrial Relations

- Division of Apprenticeship Standards
- Division of Labor Standards Enforcement
- Division of Labor Statistics and Research
- Division of Occupational Safety and Health

Department of Justice

- Bureau of Investigations
- Bureau of Medical Fraud & Elder Abuse
- Division of Gambling
- Charitable Trust Division

Department of Motor Vehicles

- Investigations Division

Department of Social Services

- Community Care Licensing Division
- Investigation Division

Franchise Tax Board

Governor's Medi-Cal Fraud Task Force

Horse Racing Board

Medical Board of California

Public Utilities Commission

Sheriff's Departments

Los Angeles County

Monterey County

Sacramento County

Police Departments

City of Anaheim

City of Buena Park

City of Fresno

City of Fountain Valley

City of Garden Grove

City of Irwindale

Police Departments (continued)

City of Los Angeles

City of Orange

City of Sacramento

City of San Jose

City of Santa Ana

City of Stockton

City of Vallejo

City of Westminster

Los Angeles Police Department

- Commission Investigation Division
- Police Commission

Union Organizations

Bricklayers Union Local 4

California State Council of Laborers

California State PIPE Trades Council

Carpenters Union

Cement Masons Union

Center for Contract Compliance

Electrical Workers Union

Foundation for Fair Contracting

Independent Roofing Contractors of California

International Brotherhood of Electrical Workers

International Brotherhood of Teamsters Union

International Union of Operating Engineers

International Union of Painters and Allied Trades Union, District Council 16

Labors' California Organizing Fund

Labor Management Cooperation Committee California Drywall & Lathing Industry

Los Angeles County Building & Construction Trade Council

Maintenance Cooperation Trust Fund

Northern California Electrical Constructors Industry

Orange County Building & Construction Trade Council

Painters & Allied Trade District Council 36

Piping Industry Progress & Education Trust Fund

Representatives from Fresno Area Floor Covering Industry

Roofers Union

San Francisco Building Trades Council

Southern California District Council of Laborers

Southern California Labor/Management Operating Engineers Contract Compliance

Southern California-Nevada Regional Council of Carpenters Local 2361/1506

Southern California Heat & Frost Insulators Asbestos Workers Apprenticeships Trust Public Works Compliance

Southern California Painting, Drywall Finishers, Floor Layers and Glaziers Apprenticeship Trust Fund

Southwest Regional Council of Carpenters Local 803

Tile Setters Union

Private Businesses/Organizations

City of Industry Chamber of Commerce
Instituto De La Raza
State Compensation Insurance Fund
Sweatshop Watch

Other Governmental Organizations

California Municipal Business Tax Association
Canada's Customs and Revenue Agency
City of Artesia
City of Bell Gardens
City of Bellflower
City of Cudahy
City of Downey
City of Fresno
City of Fullerton
City of Garden Grove
City of Glendora
City of Hawaiian Gardens
City of Industry
City of Irwindale
City of Lakewood
City of La Canada-Flintridge
City of La Habra
City of La Mirada
City of La Puente
City of Los Angeles

- Housing Authority
- Community Development Agency
- Office of Contract Compliance

City of Monrovia
City of Montebello
City of Monterey Park
City of Paramount
City of Pasadena
City of Pico Rivera
City of Rosemead
City of San Dimas
City of San Leandro
City of San Gabriel
City of San Marino
City of Santa Fe Springs
City of Sierra Madre
City of South El Monte
City of South Pasadena
City of Walnut Creek
City of West Covina
City of Vernon
City of Walnut Creek
City of Whittier

Other Governmental Organizations (continued)

County of Los Angeles

- Department of Health Services, Garment Inspection Program
- Community Development Commission, Labor Compliance Department

County of Sacramento

- Public Works

County of Ventura

- District Attorney
- Area Housing Authority

Internal Revenue Service

Anaheim Unified School District

Long Beach Unified School District

Santa Ana Unified School District

Temple City

Los Angeles Unified School District

United States Department of Health & Human Services

United States Department of Labor

United States Department of Transportation

Hotlines

Section 329 of the CUIA empowers the Strike Force to establish procedures for soliciting referrals from the public, including, but not limited to, an advertised telephone hotline. In early 1994, the following hotlines were established for the public to report violations of tax, labor, and licensing laws:

- In an effort to improve customer service and make it easier for the public to report violations of tax, labor, and licensing law, the Strike Force established a toll-free hotline in 1997. The number is (800) 528-1783. This number can be reached 24 hours a day, 7 days a week. Outside of business hours, a recording machine answers the phone and records both messages and lead information.
- The Bureau of Automotive Repair (BAR) established a hotline for California residents to report violations of tax laws, labor laws, and other questionable business practices by automotive repair shops. The BAR staff screen calls and prepare special lead referral forms, which are forwarded to the appropriate Strike Force member agencies. The statewide number is (800) 952-5210.
- The CSLB established two hotline numbers in the State for reporting contractors who operate without a license, avoid employment or income taxes, pay cash wages without a deduction statement, fail to pay minimum wage, or fail to provide workers' compensation insurance coverage. The number for Northern California is (916) 255-2924. The number for Southern California is (714) 994-7435.

Information Sharing

One Strike Force purpose is to facilitate and encourage the development and sharing of information necessary to combat the underground economy. Strike Force staff coordinators and staff from member agencies regularly share information and plan and coordinate Strike

Force activities. A Memorandum of Understanding among member agencies has been prepared to facilitate the exchange of information not previously shared.

Strike Force staff have access to the databases of EDD, CSLB, FTB, BOE, Department of Motor Vehicles, Secretary of State, Workers' Compensation Insurance Rating Bureau, and DIR registration files. These databases are used by staff to develop and screen leads for possible investigation.

Underground economy businesses constantly develop new schemes to avoid detection of their illegal activities. As these new schemes are identified, information regarding the schemes is shared with member agencies, business associations, and labor organizations. There is an ongoing need for Strike Force staff to be aware of the various types of schemes used in industries prone to underground economy activity. This knowledge facilitates the development of detection and enforcement techniques necessary to stop the illegal activities.

Partnerships among member agencies to improve information sharing have been established outside the umbrella of the Strike Force. These efforts are long-range projects to enhance information sharing, increase taxpayer access to information, reduce administrative burdens, increase the accuracy of data, and identify noncompliant industries. Strike Force staff are participating directly in many of these partnership projects and are closely monitoring all of these projects. A brief description of each partnership follows:

- Federal/State Partnership

This partnership consists of Internal Revenue Service (IRS), EDD, FTB, and BOE. Current projects include identification of noncompliant industries, sharing interagency information, education and issues for small businesses, joint collection, and joint training.

- The FTB/EDD Strategic Partnership

This partnership consists of EDD and FTB and addresses the personal income tax program, which both agencies jointly administer. The vision of this partnership is to create an integrated system that offers numerous benefits to California's business community and individual taxpayers. These benefits include providing a single point of access for employers and individual taxpayers, increasing avenues for taxpayers and others to provide information to EDD and FTB, providing employers and individual taxpayers with greater access to information about their accounts with FTB and EDD, eliminating redundant reporting, increasing the accuracy and timeliness of data, reducing adversarial relationships, and increasing the fairness of the personal income tax and employment tax systems.

- The EDD/FTB/BOE Strategic Tax Partnership

This partnership consists of the three California taxing agencies with the purpose of providing a new level of functional integration and cooperative business processing among the many and unique tax programs. Current projects include joint compliance, joint information technology, information exchange, joint field offices/taxpayer service centers, and communication.

Cooperation

Cooperative efforts among Strike Force member agencies continue to evolve and grow stronger. The EDD, BOE, and FTB have formed a strategic tax partnership aimed at increasing the sharing of information, better coordination of tax planning and policy development, and improving the quality of services to the public. The operations of EETF have forged closer ties and improved coordination of enforcement activities among EDD, DIR, BOE, and DCA. Within DCA, the CSLB, BAR, and the Bureau of Home Furnishings has been a active participant in EETF operations. These partnerships and joint operations have improved program results in all the participating agencies, thereby providing the agencies with incentives for continuing cooperation and expansion of existing relationships.

In addition, relationships with other nonmember local, State, and federal agencies have improved. Joint operations are conducted on a regular basis with ABC and GALE local law enforcement participants. As a result of the success of joint ABC, EDD, DIR, and GALE operations, additional local law enforcement agencies throughout the State have requested the services of EETF. The EETF is also an active member of various local law enforcement task forces such as the Sacramento County Nuisance Response Team, Sacramento Valley Auto Theft Investigators, Southern California Employee Exploitation Task Force, and the City of Oakland's Alcoholic Beverage Action Team. As additional industries are added to the Strike Force target group, staff will liaison with the appropriate governmental agencies with regulatory or enforcement jurisdiction in those industries.

Strides have been made in increasing cooperation among all licensing, labor law, and employment tax enforcement agencies. A coordinated effort now exists that involves not only the Strike Force member agencies but also other local, federal, and State entities. Cooperative efforts are expected to continue and grow, as the operations of the Strike Force become more successful and as other agencies become more aware that cooperative efforts breed success.

Employment Enforcement Task Force
Operational Summary

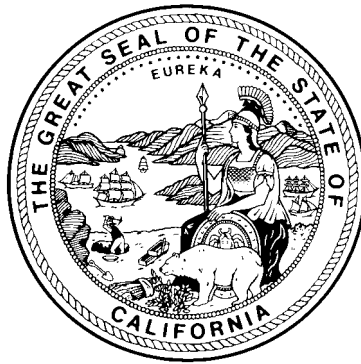
Year	1998	1999	2000	2001	% Change '00 to '01
Total Investigations	584	638	394	626	58.9%
Investigations w/o DIR	0	0	50	69	38.0%
Labor Code Citations	678	652	313	541	72.8%
Labor Code Citation Amounts	\$4,207,350	\$4,127,850	\$2,102,750	\$3,371,680	60.3%
Average Labor Code Citation Amount	\$6,206	\$6,331	\$6,718	\$6,232	-7.2%
EDD Audit Referrals	411	426	257	487	89.5%
EDD Audits Completed	515	389	369	370	0.3%
EDD Assessments	\$10,858,805	\$9,246,870	\$6,459,041	\$7,500,116	16.1%
EDD Average Assessment	\$21,085	\$23,771	\$17,504	\$20,271	15.8%
Previously Unreported Employees	4,664	3,929	3,886	4,618	18.8%
Previously Unreported Wages	\$75,547,331	\$58,060,420	\$56,400,844	\$59,052,180	4.7%

Construction Enforcement Project
Operational Summary

Year	1998	1999	2000	2001	Grand Total
EDD Audit Referrals	139	130	65	372	706
EDD Audits Completed	186	122	129	235	672
EDD Assessments	\$15,196,849	\$12,179,731	\$12,649,766	\$11,912,662	\$51,939,008
EDD Average Assessment	\$81,703	\$99,834	\$98,060	\$50,692	\$77,290
Previously Unreported Employees	3,687	4,647	2,222	4,056	14,612
Previously Unreported Wages	\$83,990,776	\$60,484,007	\$63,302,346	\$88,202,554	\$295,979,683

Janitorial Enforcement Project
Operational Summary

Year	1998	1999	2000	2001	Grand Total
EDD Audit Referrals	3	16	9	74	102
EDD Audits Completed	3	16	9	74	102
EDD Assessments	\$2,459,956	\$1,393,098	\$325,813	\$4,082,018	\$8,260,885
EDD Average Assessment	\$819,985	\$87,069	\$36,201	\$55,162	\$80,989
Previously Unreported Employees	N/A	691	337	3,230	4,258



Gray Davis
Governor
STATE OF CALIFORNIA

Grantland Johnson
Secretary
CALIFORNIA HEALTH AND HUMAN SERVICES AGENCY

Michael S. Bernick
Director
EMPLOYMENT DEVELOPMENT DEPARTMENT